

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT
MELCHER-DALLAS, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265

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Melcher-Dallas Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>Board of Education</u> (Before September, 2005 Election)		
Lary Willoughby	President	2006
Ken Schneider	Vice-President	2005
Mark Herold	Board Member	2005
Joe Clark	Board Member	2007
Barb Van Wyk	Board Member	2005
<u>Board of Election</u> (After September, 2005 Election)		
Lary Willoughby	President	2006
Ken Schneider	Vice-President	2008
Lee Franck	Board Member	2008
Joe Clark	Board Member	2007
Ann Fee	Board Member	2006
<u>School Officials</u>		
Steve Mitchell	Superintendent	2006
Andrea Lawler	District Secretary and Treasurer	2006
Rich Gaumer	Attorney	2006

Melcher-Dallas Community School District

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Independent Auditor's Report

To the Board of Education of
Melcher-Dallas Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District, Melcher-Dallas, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2006 on our consideration of Melcher-Dallas Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Melcher-Dallas Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

August 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Melcher-Dallas Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,138,290 in fiscal 2005 to \$3,409,109 in fiscal 2006, while General Fund expenditures increased from \$3,038,979 in fiscal 2005 to \$3,199,476 in fiscal 2006. The District's General Fund balance increased from \$58,542 in fiscal 2005 to \$267,321 in fiscal 2006, a 357% increase.
- The increase in General Fund revenues was primarily due to an increase in property taxes and state aid. The increase in expenditures was primarily due to the purchase of new vehicles, and increased gasoline and utility costs.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Melcher-Dallas Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements report Melcher-Dallas Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The governmental fund financial statements tell how well governmental services were financed in the short term as well as what remains for future spending. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Melcher-Dallas Community School District, the school nutrition program operations are the only enterprise reported as a proprietary fund. The remaining statements provide financial information about activities for which Melcher-Dallas Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Melcher-Dallas Community School District Annual Financial Report

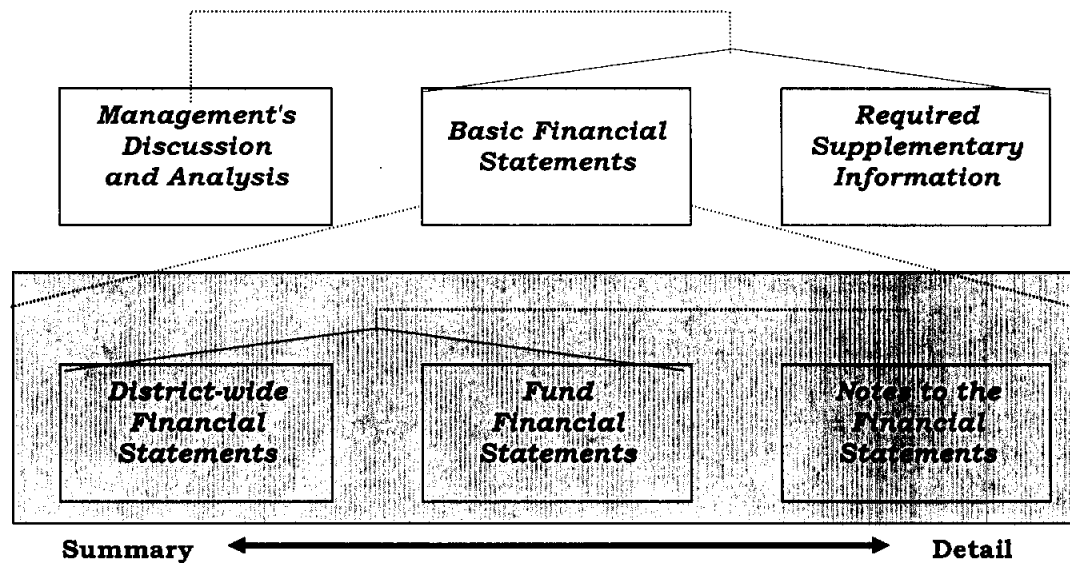


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or

decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2006-2005
Current and other assets	\$ 3,197	2,884	13	15	3,210	2,899	10.7%
Capital assets	3,537	3,608	21	23	3,558	3,631	-2.0%
Total assets	6,734	6,492	34	38	6,768	6,530	3.6%
Long-term liabilities	1,852	1,957	-	-	1,852	1,957	-5.4%
Other liabilities	2,647	2,641	13	11	2,660	2,652	0.3%
Total liabilities	4,499	4,598	13	11	4,512	4,609	-2.1%
Net assets							
Invested in capital assets, net of related debt	1,981	1,897	21	23	2,002	1,920	4.3%
Restricted	41	22	-	-	41	22	86.4%
Unrestricted	213	(25)	-	4	213	(21)	100.0%
Total net assets	\$ 2,235	1,894	21	27	2,256	1,921	17.4%

The District's combined net assets increased by 17.4%, or approximately \$335,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$19,000, or 86% over the prior year. The decrease was primarily the result of decreased expenditures in the Student Activity Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$234,000. This increase in unrestricted net assets was a result of the District monitoring its spending and not purchasing anything unless it was absolutely necessary.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Change in Net Assets (Expressed in Thousands)								
	Governmental Activities		Business type Activities		Total School District		Total Change	
	2006	2005	2006	2005	2006	2005	2005-2006	
Revenues								
Program revenues:								
Charges for service and sales	\$ 191	165	86	88	277	253	9.5%	
Operating grants, contributions and restricted interest	424	409	73	81	497	490	1.4%	
Capital grants, contributions and restricted interest	1	-	-	-	1	-	100.0%	
General revenues:								
Property tax	1,066	966	-	-	1,066	966	10.4%	
Income surtax	73	44	-	-	73	44	65.9%	
Local option sales and services tax	238	194	-	-	238	194	22.7%	
Unrestricted state grants	1,816	1,760	-	-	1,816	1,760	3.2%	
Unrestricted investment earnings	64	27	-	-	64	27	137.0%	
Other	69	11	-	-	69	11	527.3%	
Total revenues	<u>3,942</u>	<u>3,576</u>	<u>159</u>	<u>169</u>	<u>4,101</u>	<u>3,745</u>	<u>9.5%</u>	
Program expenses:								
Instruction	2,262	2,344	-	-	2,262	2,344	-3.5%	
Support services	1,043	868	-	-	1,043	868	20.2%	
Non-instructional programs	-	-	166	166	166	166	0.0%	
Other expenses	295	315	-	-	295	315	-6.3%	
Total expenses	<u>3,600</u>	<u>3,527</u>	<u>166</u>	<u>166</u>	<u>3,766</u>	<u>3,693</u>	<u>2.0%</u>	
Change in net assets	<u>\$ 342</u>	<u>49</u>	<u>(7)</u>	<u>3</u>	<u>335</u>	<u>52</u>	<u>544.2%</u>	

In fiscal 2006, property tax and unrestricted state grants account for 73.1% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 100% of the revenue from business type activities.

The District's total revenues were approximately \$4.1 million of which \$3.9 million was for governmental activities and approximately \$159,000 for business type activities.

As shown in Figure A-4, the District as a whole experienced a 9.5% increase in revenues and a 2.0% increase in expenses. Property tax increased approximately \$100,000 to fund increases in expenditures. The increase in expenses related to increases in gasoline and utility costs, and the purchase of new vehicles.

Governmental Activities

Revenues for governmental activities were \$3,942,714 and expenses were \$3,601,200. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
			Change			Change
	2006	2005	2005-2006	2006	2005	2005-2006
Instruction	\$ 2,262	2,344	-3.5%	1,771	1,894	-6.5%
Support services	1,043	868	20.2%	1,043	868	20.2%
Non-instructional programs	-	-	0.0%	-	-	0.0%
Other expenses	295	315	-6.3%	170	191	-11.0%
Total	\$ 3,600	3,527	2.1%	2,984	2,953	1.0%

- The cost financed by users of the District's programs was \$191,543.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$424,005.
- The net cost of governmental activities was financed with \$1,377,168 in property and other taxes and \$1,816,205 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$158,900 representing a 6.1 percent decrease under the prior year while expenses totaled \$166,116, a 0.2% decrease under the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Melcher-Dallas Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$503,376, well above last years ending fund balances of \$195,036.

Governmental Fund Highlights

- The District's General Fund financial position improved for the second year in a row, and is a result of many factors. The staff and administration have worked hard to keep costs to a minimum while still offering our students the best education possible. Additionally, total revenue for the general fund increased.
- The General Fund balance increased from \$58,542 to \$267,321. This represents a \$208,779 increase from the previous year. Increased property taxes and state aid were the primary reasons for the increase in revenues.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased by \$15,047 from fiscal 2005 to fiscal 2006. No expenditures were made out of this fund for the 2006 fiscal year.
- Marion County passed the local option sales and services tax in fiscal 2004, and we began receiving revenue from this source in fiscal 2005. In this fund, total revenue for the year was \$239,191 and expenditures were \$91,297. In addition, the District used \$68,500 of these funds in fiscal 2006 to pay general obligation bonds of the District.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$27,828 at June 30, 2005 to \$20,612 at June 30, 2006, representing a decrease of approximately 25.9%. While expenses stayed approximately the same from the prior year, revenues decreased due to a decline in meals served.

BUDGETARY HIGHLIGHTS

Over the course of the year, Melcher-Dallas Community School District amended its annual budget one time to correct for the omission of expenditures for the Nutrition Fund.

The District's revenues were \$312,872 more than budgeted revenues, a variance of 8.25%.

Total expenditures were \$4,431,655 less than budgeted disbursements, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested, net of accumulated depreciation, \$3.6 million in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). This represents a net decrease of 2.0% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$136,085 for both governmental and business type activities.

The original cost of the District's capital assets was \$5.1 million. Governmental funds account for \$5.0 million, with the remaining \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 14	14	-	-	14	14	0.0%
Buildings	3,182	3,263	-	-	3,182	3,263	-2.5%
Improvements other than buildings	39	42	-	-	39	42	-7.1%
Furniture and equipment	302	289	21	23	323	312	3.5%
Total assets	\$ 3,537	3,608	21	23	3,558	3,631	-2.0%

Long-Term Debt

At June 30, 2006, the District had \$1,852,129 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 5.4% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
General obligation bonds	\$ 1,750	1,825	-4.1%
Capitalized lease obligations	-	1	-100.0%
Early retirement	99	132	-25.0%
Compensated absences	3	-	100.0%
Total	\$ 1,852	1,958	-5.4%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future.

- The District has been experiencing declining enrollment for several years. For fiscal year 2007, we are down in enrollment of approximately 14 students. Financially, this will amount to approximately \$70,000 less in state funding.
- The District will negotiate a new agreement with the Melcher-Dallas Education Association during fiscal 2007, effective with the 2007-2008 school year. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the Districts General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Andrea Lawler, District Secretary/Treasurer and Business Manager, Melcher-Dallas Community School District, 210 South Main, Melcher, Iowa, 50163.

Basic Financial Statements

Melcher-Dallas Community School District

Exhibit A

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 1,203,914	-	1,203,914
Other	740,805	10,061	750,866
Receivables:			
Property tax:			
Delinquent	35,559	-	35,559
Succeeding year	1,011,419	-	1,011,419
Accounts	1,628	-	1,628
Accrued interest:			
ISCAP	10,987	-	10,987
Due from other funds	13,385	-	13,385
Due from other governments	178,772	-	178,772
Inventories	-	3,240	3,240
Capital assets, net of accumulated depreciation	3,537,309	20,696	3,558,005
Total assets	6,733,778	33,997	6,767,775
Liabilities			
Accounts payable	15,071	-	15,071
Salaries and benefits payable	328,736	-	328,736
Due to other governments	55,723	-	55,723
Other liabilities	8,431	-	8,431
Due to other funds	-	13,385	13,385
Accrued interest payable	14,288	-	14,288
Deferred revenue:			
Succeeding year property tax	1,011,419	-	1,011,419
ISCAP warrants payable	1,203,000	-	1,203,000
ISCAP accrued interest payable	10,295	-	10,295
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	80,000	-	80,000
Early retirement payable	38,851	-	38,851
Compensated absences	2,950	-	2,950
Portion due after one year:			
General obligation bonds payable	1,670,000	-	1,670,000
Early retirement payable	60,328	-	60,328
Total liabilities	4,499,092	13,385	4,512,477
Net assets			
Invested in capital assets, net of related debt	1,980,539	20,696	2,001,235
Restricted for:			
Management levy	(5,407)	-	(5,407)
Physical plant and equipment levy	12,867	-	12,867
Other special revenue purposes	33,604	-	33,604
Unrestricted	213,083	(84)	212,999
Total net assets	\$ 2,234,686	20,612	2,255,298

See notes to financial statements.

Melcher-Dallas Community School District

Statement of Activities

Year ended June 30, 2006

Functions / Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,336,794	65,587	158,828	-
Special instruction	552,841	43,024	135,435	-
Other instruction	372,539	82,932	5,427	-
	<u>2,262,174</u>	<u>191,543</u>	<u>299,690</u>	<u>-</u>
Support services:				
Student services	68,468	-	-	-
Instructional staff services	48,804	-	-	-
Administration services	449,001	-	-	-
Operation and maintenance of plant services	306,752	-	-	-
Transportation services	170,365	-	-	-
	<u>1,043,390</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>352</u>		-	-
Other expenditures:				
Facilities acquisition	-	-	-	984
Long-term debt interest	89,970	-	300	-
AEA flowthrough	124,015	-	124,015	-
Depreciation (unallocated)*	81,299	-	-	-
	<u>295,284</u>	<u>-</u>	<u>124,315</u>	<u>984</u>
Total governmental activities	3,601,200	191,543	424,005	984
Business type activities:				
Non-instructional programs:				
Food service operations	<u>166,116</u>	<u>85,772</u>	<u>73,058</u>	<u>-</u>
Total	<u>\$ 3,767,316</u>	<u>277,315</u>	<u>497,063</u>	<u>984</u>
General Revenues:				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

* This amount excludes the depreciation that is included in the direct expenses of the various programs

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,112,379)	-	(1,112,379)
(374,382)	-	(374,382)
(284,180)	-	(284,180)
(1,770,941)	-	(1,770,941)
(68,468)	-	(68,468)
(48,804)	-	(48,804)
(449,001)	-	(449,001)
(306,752)	-	(306,752)
(170,365)	-	(170,365)
(1,043,390)	-	(1,043,390)
(352)	-	(352)
984	-	984
(89,670)	-	(89,670)
-	-	-
(81,299)	-	(81,299)
(169,985)	-	(169,985)
(2,984,668)	-	(2,984,668)
-	(7,286)	(7,286)
(2,984,668)	(7,286)	(2,991,954)
\$ 949,463	-	949,463
101,889	-	101,889
15,004	-	15,004
72,605	-	72,605
238,207	-	238,207
1,816,205	-	1,816,205
63,703	70	63,773
69,106	-	69,106
3,326,182	70	3,326,252
341,514	(7,216)	334,298
1,893,172	27,828	1,921,000
\$ 2,234,686	20,612	2,255,298

Melcher-Dallas Community School District

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2006

	General	Nonmajor Governmental Funds	Total
Assets			
Cash and pooled investments:			
ISCAP	\$ 1,203,914	-	1,203,914
Other	541,140	199,665	740,805
Receivables:			
Property tax:			
Delinquent	28,468	7,091	35,559
Succeeding year	747,922	263,497	1,011,419
Accounts	-	1,628	1,628
Accrued interest:			
ISCAP	10,987	-	10,987
Due from other funds	35,636	-	35,636
Due from other governments	127,711	51,061	178,772
Total assets	\$ 2,695,778	522,942	3,218,720
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 13,932	1,139	15,071
Salaries and benefits payable	328,736	-	328,736
Due to other governments	55,723	-	55,723
Other liabilities	8,431	-	8,431
Due to other funds	-	22,251	22,251
ISCAP warrants payable	1,203,000	-	1,203,000
ISCAP accrued interest payable	10,295	-	10,295
Deferred revenue:			
Succeeding year property tax	747,922	263,497	1,011,419
Other	60,418	-	60,418
Total liabilities	2,428,457	286,887	2,715,344
Fund balances:			
Reserved for talented and gifted	12,420	-	12,420
Reserved for debt service	-	1,761	1,761
Unreserved	254,901	234,294	489,195
Total fund balances	267,321	236,055	503,376
Total liabilities and fund balances	\$ 2,695,778	522,942	3,218,720

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (page 21)	\$ 503,376
--	-------------------

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,537,309
--	-----------

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	60,418
---	--------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(14,288)
--	----------

Long-term liabilities, including bonds payable, early retirement payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,852,129)</u>
--	--------------------

Net assets of governmental activities (page 18)	<u><u>\$ 2,234,686</u></u>
--	-----------------------------------

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 928,266	450,849	1,379,115
Tuition	65,376	-	65,376
Other	137,745	84,703	222,448
State sources	2,094,760	-	2,094,760
Federal sources	182,962	-	182,962
Total revenues	3,409,109	535,552	3,944,661
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,316,730	46,376	1,363,106
Special instruction	544,543	2,107	546,650
Other instruction	292,942	76,739	369,681
	2,154,215	125,222	2,279,437
Support services:			
Student services	68,224	244	68,468
Instructional staff services	48,762	42	48,804
Administration services	433,589	12,237	445,826
Operation and maintenance of plant services	234,232	65,379	299,611
Transportation services	136,439	66,891	203,330
	921,246	144,793	1,066,039
Non-instructional programs	-	352	352
Other expenditures:			
Long-term debt:			
Principal	-	75,754	75,754
Interest and fiscal charges	-	90,724	90,724
AEA flowthrough	124,015	-	124,015
	124,015	166,478	290,493
Total expenditures	3,199,476	436,845	3,636,321
Excess of revenues over expenditures	209,633	98,707	308,340
Other financing sources (uses):			
Operating transfers in	-	69,354	69,354
Operating transfers out	(854)	(68,500)	(69,354)
Total other financing sources (uses)	(854)	854	-
Net change in fund balances	208,779	99,561	308,340
Fund balances beginning of year	58,542	136,494	195,036
Fund balances end of year	\$ 267,321	236,055	503,376

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (page 23) **\$ 308,340**

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 71,899	
Depreciation expense	<u>(133,733)</u>	(61,834)

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (9,226)

Income surtax is not collected until several months after year end and is not considered available revenue and is deferred in the governmental funds. (1,947)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	-	
Repaid	<u>75,754</u>	75,754

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 754

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(2,950)	
Early retirement	<u>32,623</u>	29,673

Change in net assets of governmental activities (page 20) **\$ 341,514**

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2006

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 10,061
Inventories	3,240
Capital assets, net of accumulated depreciation	<u>20,696</u>
Total assets	<u>33,997</u>
Liabilities	
Due to other funds	<u>13,385</u>
Total liabilities	<u>13,385</u>
Net Assets	
Invested in capital assets, net of related debt	20,696
Unrestricted	<u>(84)</u>
Total net assets	<u><u>\$ 20,612</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 85,772</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	51,104
Benefits	30,475
Purchased services	4,538
Supplies	77,647
Depreciation	2,352
Total operating expenses	<u>166,116</u>
Operating loss	<u>(80,344)</u>
Non-operating revenues:	
State sources	2,071
Federal sources	70,987
Interest income	70
Total non-operating revenues	<u>73,128</u>
Net loss	(7,216)
Net assets beginning of year	<u>27,828</u>
Net assets end of year	<u><u>\$ 20,612</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 85,772
Cash paid to employees for services	(51,104)
Cash paid to suppliers for goods and services	(103,109)
Net cash used by operating activities	<u>(68,441)</u>
Cash flows from non-capital financing activities:	
State grants received	2,071
Federal grants received	63,020
Net cash provided by non-capital financing activities	<u>65,091</u>
Cash flows from capital and related financing activities:	
None	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>70</u>
Net (decrease) in cash and cash equivalents	(3,280)
Cash and cash equivalents beginning of year	13,341
Cash and cash equivalents end of year	<u>\$ 10,061</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (80,344)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	7,967
Depreciation	2,352
(Increase) in inventories	(852)
Increase in due to other funds	2,436
Net cash used by operating activities	<u>\$ (68,441)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$7,967 of federal commodities.

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	\$ 8,358
Investment	<u>5,000</u>
Total assets	<u>13,358</u>
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>\$ 13,358</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit K

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest income	<u>\$ 632</u>
Deductions:	
Support services:	
Scholarships awarded	<u> 2,500</u>
Changes in net assets	(1,868)
Net assets beginning of year	<u> 15,226</u>
Net assets end of year	<u><u> \$ 13,358</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Melcher-Dallas Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Melcher-Dallas, Iowa, and the predominate agricultural territory of Marion County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Melcher-Dallas Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Melcher-Dallas Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For the purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in applicable government or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted. However, prior to the May, 2006 budget amendment, disbursements in the non-instructional program function exceeded the certified budget amounts.

(2) Cash, Pooled Investments and Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust in the Diversified Portfolio Fund. The amortized cost of this was \$8,408 at June 30, 2006.

The Iowa Schools Joint Investment Trust investment is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

At June 30, 2006, the District had an investment in a Federal Home Loan Mortgage Corporation (FHLMC) Medium Term Note. This investment is an obligation of the United States Government. The original cost of the investment was \$5,000, and at June 30, 2006, the market value of this investment was \$4,847. The FHLMC investment is stated at fair value, and is valued at the last reported sales price on June 30, 2006.

Credit Risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investment Service.

(3) Due From and Due to Other Funds

The details of interfund receivables and payables at June 30, 2006 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Management Levy	\$ 14,906
	Debt Service	7,345
	Proprietary:	
	School Nutrition	13,385
		<u>\$ 35,636</u>

The above due from/to amounts primarily represent loans between funds, and corrections of incorrect recording of transactions.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 854
	Capital Projects:	
	Local Option Sales Tax	<u>68,500</u>
Total		<u>\$ 69,354</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/2006	1/26/2007	\$ 531,850	10,778	530,000	10,128
2006-07A	6/28/2006	6/28/2007	672,064	209	673,000	167
			<u>\$ 1,203,914</u>	<u>10,987</u>	<u>1,203,000</u>	<u>10,295</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	<u>\$ -</u>	<u>275,000</u>	<u>275,000</u>	<u>-</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(6)

Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 13,925	-	-	13,925
Total capital assets not being depreciated	13,925	-	-	13,925
Capital assets being depreciated:				
Buildings	4,111,700	-	-	4,111,700
Improvements other than buildings	203,251	-	17,557	185,694
Furniture and equipment	725,332	71,899	41,265	755,966
Total capital assets being depreciated	5,040,283	71,899	58,822	5,053,360
Less accumulated depreciation for:				
Buildings	848,436	81,299	-	929,735
Improvements other than buildings	161,399	2,672	17,556	146,515
Furniture and equipment	436,004	49,762	32,040	453,726
Total accumulated depreciation	1,445,839	133,733	49,596	1,529,976
Total capital assets being depreciated, net	3,594,444	(61,834)	(9,226)	3,523,384
Governmental activities capital assets, net	\$ 3,608,369	(61,834)	(9,226)	3,537,309
Business type activities:				
Furniture and equipment	\$ 49,090	-	-	49,090
Less accumulated depreciation	26,042	2,352	-	28,394
Business type activities capital assets, net	\$ 23,048	(2,352)	-	20,696
Depreciation expense was charged to the following functions:				
Governmental activities:				
Instruction:				
Regular		\$ 6,311		
Special		14,765		
Other		2,858		
Support services:				
Administration		225		
Operation and maintenance of plant		7,141		
Transportation		21,134		
		52,434		
Unallocated		81,299		
Total depreciation expense - governmental activities		\$ 133,733		
Business type activities:				
Food service operations		\$ 2,352		

(7) **Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,825,000	-	75,000	1,750,000	80,000
Capitalized lease obligations	754	-	754	-	-
Early retirement	131,802	-	32,623	99,179	38,851
Compensated absences	-	2,950	-	2,950	2,950
Total	\$ 1,957,556	2,950	108,377	1,852,129	121,801

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 1999			Bond Issue of December 1, 2001			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2007	5.50%	\$ 75,000	63,768	5.00%	5,000	21,957	80,000	85,725	165,725
2008	4.40%	80,000	59,642	5.00%	10,000	21,708	90,000	81,350	171,350
2009	4.50%	85,000	56,122	5.00%	10,000	21,207	95,000	77,329	172,329
2010	4.60%	85,000	52,298	4.30%	10,000	20,707	95,000	73,005	168,005
2011	4.70%	90,000	48,388	4.40%	10,000	20,278	100,000	68,666	168,666
2012-2016	4.80-5.00%	520,000	171,954	4.50-4.90%	55,000	94,588	575,000	266,542	841,542
2017-2021	5.00%	370,000	37,750	4.95-5.00%	345,000	71,994	715,000	109,744	824,744
Total		\$ 1,305,000	489,922		445,000	272,439	1,750,000	762,361	2,512,361

Capitalized Lease Obligation

The District had entered into a capital lease for the purchase of musical equipment. The assets have been capitalized at cost. This lease was paid off during fiscal year 2006.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five on or before June 30 in the calendar year in which early retirement commences and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to 100% of the employees annual salary in effect at the date of the request for early retirement. Payment of benefits are prorated from the employees retirement date until the employee turns 65 years of age. Eligible employees retiring under the early retirement program are eligible to continue with the same insurance coverage until 65 years of age, with all premiums paid by the employee. At June 30, 2006, the District has obligations to three participants with a total liability of \$99,179. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$32,623.

(8) Operating Lease

The District has entered into an operating lease for various electronic equipment. Future minimum lease payments in relation to this lease are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2007	\$ 15,694
2008	15,694
2009	15,694
Total	<u>\$ 47,082</u>

During the fiscal year, payments made under this lease amounted to \$15,694.

(9) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$104,069, \$106,803 and \$106,802, respectively, equal to the required contributions for each year.

(10) Risk Management

Melcher-Dallas Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Related Party Transactions

The District had business transactions totaling \$1,804 between the District and District officials during the year ended June 30, 2006.

(12) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$124,015 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

Melcher-Dallas Community School District

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,666,939	85,842	1,752,781	1,495,177	1,495,177	257,604
State sources	2,094,760	2,071	2,096,831	2,144,712	2,144,712	(47,881)
Federal sources	182,962	70,987	253,949	150,800	150,800	103,149
Total revenues	3,944,661	158,900	4,103,561	3,790,689	3,790,689	312,872
Expenditures:						
Instruction	2,279,437	-	2,279,437	2,734,251	2,734,251	454,814
Support services	1,066,039	-	1,066,039	1,121,475	1,121,475	55,436
Non-instructional programs	352	166,116	166,468	-	200,200	33,732
Other expenditures	290,493	-	290,493	426,081	4,178,166	3,887,673
Total expenditures	3,636,321	166,116	3,802,437	4,281,807	8,234,092	4,431,655
Excess (deficiency) of revenues over (under) expenditures	308,340	(7,216)	301,124	(491,118)	(4,443,403)	4,744,527
Other financing sources, net	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	308,340	(7,216)	301,124	(491,118)	(4,443,403)	4,744,527
Balances beginning of year	195,036	27,828	222,864	58,777	58,777	164,087
Balances end of year	\$ 503,376	20,612	523,988	(432,341)	(4,384,626)	4,908,614

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$3,952,285.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted. However, prior to the May, 2006 budget amendment, disbursements in the non-instructional program function exceeded the certified budget amounts.

Other Supplementary Information

Melcher-Dallas Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Special Revenue			Capital Projects		Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Local Option Sales Tax	
Assets						
Cash and pooled investments	\$ 6,306	33,115	12,367	5,708	142,169	199,665
Receivables:						
Property tax:						
Delinquent	3,193	-	500	3,398	-	7,091
Succeeding year	150,000	-	15,721	97,776	-	263,497
Accounts	-	1,628	-	-	-	1,628
Due from other governments	-	-	-	-	51,061	51,061
Total assets	\$ 159,499	34,743	28,588	106,882	193,230	522,942
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ -	1,139	-	-	-	1,139
Due to other funds	14,906	-	-	7,345	-	22,251
Deferred revenue:						
Succeeding year property tax	150,000	-	15,721	97,776	-	263,497
Total liabilities	164,906	1,139	15,721	105,121	-	286,887
Fund balances:						
Reserved for debt service	-	-	-	1,761	-	1,761
Unreserved fund balances	(5,407)	33,604	12,867	-	193,230	234,294
Total fund equity	(5,407)	33,604	12,867	1,761	193,230	236,055
Total liabilities and fund balances	\$ 159,499	34,743	28,588	106,882	193,230	522,942

See accompanying independent auditor's report.

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

	Special Revenue			Capital Projects		
	Management	Student	Physical Plant and Equipment	Debt Service	Local Option	Total
	Levy	Activity	Levy		Sales Tax	
Revenues:						
Local sources:						
Local tax	\$ 95,749	-	15,004	101,889	238,207	450,849
Other	444	82,932	43	300	984	84,703
Total revenues	96,193	82,932	15,047	102,189	239,191	535,552
Expenditures						
Current:						
Instruction:						
Regular instruction	46,376	-	-	-	-	46,376
Special instruction	2,107	-	-	-	-	2,107
Other instruction	1,526	75,213	-	-	-	76,739
Support services:						
Student services	244	-	-	-	-	244
Instructional staff services	42	-	-	-	-	42
Administration services	12,133	-	-	-	104	12,237
Operation and maintenance of plant services	28,285	-	-	-	37,094	65,379
Transportation services	12,792	-	-	-	54,099	66,891
Non-instructional programs	352	-	-	-	-	352
Other expenditures:						
Long-term debt:						
Principal	-	-	-	75,754	-	75,754
Interest and fiscal charges	-	-	-	90,724	-	90,724
Total expenditures	103,857	75,213	-	166,478	91,297	436,845
Excess (deficiency) of revenues over (under) expenditures	(7,664)	7,719	15,047	(64,289)	147,894	98,707
Other financing sources (uses):						
Operating transfers in	-	-	-	69,354	-	69,354
Operating transfers out	-	-	-	-	(68,500)	(68,500)
Total other financing sources (uses)	-	-	-	69,354	(68,500)	854
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(7,664)	7,719	15,047	5,065	79,394	99,561
Fund balances beginning of year	2,257	25,885	(2,180)	(3,304)	113,836	136,494
Fund balances end of year	\$ (5,407)	33,604	12,867	1,761	193,230	236,055

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	\$ -	647	695	48	-
H.S. Athletics	9,721	41,469	36,178	2,393	17,405
J.H. Athletics	1,991	4,560	4,992	(1,559)	-
Wrestling	2,139	-	1,548	-	591
French	576	-	-	(576)	-
SADD	342	-	-	-	342
Cheerleaders	403	1,347	1,669	-	81
FBLA	664	3,135	3,421	(1)	377
Yearbook	218	3,620	2,542	1,035	2,331
FHA	188	-	-	-	188
Newspaper	125	-	-	-	125
Student Council	3,999	14,586	12,518	(383)	5,684
Drill Team	1,810	2,949	3,569	(500)	690
Thespian Club	-	1,305	1,280	-	25
Elementary Student Government	1,988	2,092	578	2	3,504
Class of 06	665	600	806	(459)	-
Class of 07	-	5,479	4,319	-	1,160
Class of 09	-	10	-	-	10
Jr. High	1,056	35	-	-	1,091
Total	\$ 25,885	81,834	74,115	-	33,604

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 4

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 1,379,115	1,201,987	934,471	948,264
Tuition	65,376	64,011	43,292	58,442
Other	222,448	139,860	143,103	134,023
State sources	2,094,760	2,027,764	2,159,338	2,253,229
Federal sources	182,962	142,202	111,001	132,711
Total	<u>\$ 3,944,661</u>	<u>3,575,824</u>	<u>3,391,205</u>	<u>3,526,669</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,363,106	1,338,034	1,427,204	1,607,329
Special instruction	546,650	570,841	613,493	500,206
Other instruction	369,681	333,797	174,289	184,890
Support services:				
Student services	68,468	62,674	45,289	13,019
Instructional staff services	48,804	43,767	20,730	-
Administration services	445,826	392,616	378,676	328,846
Operation and maintenance of plant services	299,611	251,233	251,068	231,334
Transportation services	203,330	105,591	199,941	167,555
Non-instructional programs	352	391	-	354
Other expenditures:				
Facilities acquisition	-	10,383	177,009	1,064,697
Long-term debt:				
Principal	75,754	70,665	65,586	65,517
Interest and other charges	90,724	95,953	98,519	102,440
AEA flowthrough	124,015	123,819	127,839	137,004
Total	<u>\$ 3,636,321</u>	<u>3,399,764</u>	<u>3,579,643</u>	<u>4,403,191</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
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Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of
Melcher-Dallas Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Melcher-Dallas Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06, I-B-06 and I-C-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Melcher-Dallas Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Melcher-Dallas Community School District and other parties to whom Melcher-Dallas Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Melcher-Dallas Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

August 18, 2006

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize that it is difficult to segregate duties with a limited number of office employees. However, the District should review its operating procedures to obtain the maximum control possible under the circumstances.

Response – We will continue to investigate available alternatives.

Conclusion – Response accepted.

- I-B-06 Outside Bank Accounts – Monies collected from a school sponsored event were deposited to a non-school bank account. On another bank account, the bank told the Board Secretary that the schools federal identification number was used by the Dallas Elementary School Fund bank account. However, this fund is not under the control of the District.

Recommendation – The District should require that all outside bank accounts be under the control of the District.

Response – We will review this situation and take action as necessary.

Conclusion – Response accepted.

- I-C-06 Receipts – We noted that Activity Fund receipts were not deposited to the bank for 1-2 months after receipt of those funds. In the Nutrition Fund, the District does not separately identify ala carte receipt collections on the general ledger.

Recommendation – The District deposit all funds to the bank on a timely basis, preferably daily. Also, Nutrition Fund ala carte receipts should be separately identified on the general ledger.

Response – We will implement these recommendations.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget – After taking into account the budget amendment, disbursements for the year ended June 30, 2006 did not exceed the certified budgeted amounts. Prior to the May, 2006 budget amendment, disbursements in the non-instrumental program function exceeded the certified budget amounts. The beginning balance in the other expenditures function on the budget amendment did not agree with the ending balance for this same function on the original budget.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the District implement procedures to ensure the beginning balances on the budget amendment equal the ending balances on the original budget.

Response – We will implement this in the future, this was an oversight on our part.

Conclusion – Response accepted.

II-B-06 Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.

II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Lary Willoughby, Board Member	Coach	\$ 1,804

The board member was included on the District's payroll. The contract with the employee was approved by the Board. Due to the size of the transactions, the above does not appear to represent a conflict of interest pursuant to Chapter 279.7A of the Code of Iowa.

II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Board Minutes – The Private Purpose Trust – Scholarship Fund invoices were not approval by the board. In addition, these same invoices were not published as required by Chapters 279.29 and 279.35 of the Code of Iowa. For two items tested, adequate documentation was not available which supports the disbursement. In addition, for Activity Fund disbursements, the Board President does not approve the early payment of invoices in accordance with the District's policy and Code of Iowa requirements.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2006

Recommendation – The District implement procedures to ensure the requirements per the Code of Iowa are met regarding the approval and publication of invoices. Sufficient documentation should be maintained supporting all disbursements. In addition, for payments made in advance of board meetings, the District should require the Board President's approval of invoices for payment.

Response – We will implement these recommendations.

Conclusion – Response accepted

- II-G-06 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2005 was understated by 4.1 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

- II-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

- II-I-06 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely.

- II-J-06 Financial Condition – The District's Special Revenue – Management Levy Fund total fund balance at June 30, 2006 was (\$5,407).

Recommendation – The District continue to monitor the Special Revenue – Management Levy Fund to prevent any further financial deterioration of this fund. In addition, procedures should be implemented to increase revenues and/or decrease expenditures in this fund.

Response – We are aware of the District's financial condition, and will continue to monitor this condition to ensure further financial deterioration does not exist in this fund.

Conclusion – Response accepted.

- II-K-06 Fuel Procedures – The District buys its fuel as needed from a vendor in town. In addition, a vehicle log is kept in each vehicle. However, there is no documented reconciliation between fuel purchased per the vendor invoices with the vehicle logs.

Recommendation – To provide increased accountability over fuel purchased, the District should periodically reconcile fuel purchased per the vendor invoices with the vehicle logs. Any differences and any unusual amounts of fuel used should be periodically investigated and followed up on in a timely manner.

Response – We will review our procedures at this time.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2006

- II-L-06 General Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person.
- Recommendation – Fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-M-06 Compliance Issues – We noted an instance in which the District failed to file an IRS 1099-Misc. Form.
- Recommendation – The District implement procedures to ensure all IRS 1099-Misc. Forms are filed in the future.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-N-06 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.
- Recommendation – The District should obtain and retain an image of both the front and back of each cancelled check as required.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-O-06 Early Retirement – In fiscal year 2005, the District offered eligible employees an early retirement incentive, as outlined in the early retirement Board policy. We noted that based on the payment schedule established by the District, one employee will be overpaid by \$504. Based on our review of this policy, the Board did not indicate what early retirement option they chose. Also, the policy as written by a former superintendent requires that the early retirement incentive be paid out on a pro-rata basis from the employees retirement date until they are 65 years of age. We noted that the employees are not paid their early retirement incentive on a pro-rata basis.
- Recommendation – The District review its early retirement Board policies and procedures and ensure employees are paid the correct amount, and that the Board policy documents the early retirement option the District plans to use. In addition, the District should consult with legal counsel to determine the proper disposition of this matter.
- Response – We will review this.
- Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2006

II-P-06 Payroll – Instances were noted where an employee was paid even though no written contract existed. Some non-exempt employees do not keep timesheets. Instances were noted where I9's were either missing at incomplete. The support staff union does not provide, to the District, written documentation of the dollar amount of union dues to withhold from the employee paychecks. As a result, the District is unable to provide reasonable assurance that the correct amount of union dues were withheld from the employees paychecks.

Recommendation – The District implement procedures to ensure written contracts exist for all employees. All non exempt employees should be required to keep timesheets. In addition, completed I9's should be maintained for all employees. Also, the District require the support staff union provide to them the dollar amount of union dues to withhold from each paycheck.

Response – We will implement these to the best of our ability.

Conclusion – Response accepted.